



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 16, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' COMMUNITY HEALTH PLAN -
FINANCIAL AUDIT FOR THE YEARS ENDING 2009 AND 2010**

Attached is the independent auditor's report on the financial statements of the Department of Health Services' (DHS) Community Health Plan (CHP) for the years ending 2009 and 2010. The audit was performed by Simpson & Simpson, Certified Public Accountants (Simpson).

California law requires the CHP and other managed care plans to submit annual financial statements that have been audited by an independent Certified Public Accountant to the State Department of Managed Health Care. The statements must be accompanied by an opinion on the fairness of the financial statement presentation. Simpson's opinion indicates that the financial statements present fairly CHP's financial position and operating results, as of, and for the years ending, June 30, 2009 and 2010. CHP has submitted the report to the State Department of Managed Health Care, as required.

Internal Control Findings

Simpson indicated that, in completing their audit, they did not identify any material weaknesses in CHP's internal controls. However, they did note certain matters where CHP could strengthen its internal controls and operating efficiency. For example, CHP's security over its Novell network system (e.g., network access, monitoring, back-up, etc.). In addition, Simpson reviewed the matters they identified in their prior audits. These matters related to CHP's need to replace their outdated Patient Management

System and CHP's ability to handle increased growth. CHP indicated that Implementation of the recommendations in the management letters is pending the outcome of negotiations between DHS and L.A. Care Health Plan, which may include transitioning DHS out of the operation of CHP.

These issues were discussed with CHP management. The details of Simpson's findings and recommendations, and CHP's corrective actions are included in the management letter, which will be sent to your Board separately.

Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachment

c: William T Fujioka, Chief Executive Officer
Mitchell H. Katz, M.D., Director, DHS
Andrea Sheridan Ordin, County Counsel
Public Information Office
Audit Committee

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

**Financial Statements for the
Years Ended June 30, 2010 and 2009
with Independent Auditor's Reports**



**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors of
the County of Los Angeles

We have audited the accompanying balance sheet of the **Los Angeles County Department of Health Services Community Health Plan (CHP)** as of June 30, 2010 and 2009 and the related statement of income and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of CHP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CHP's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of CHP as of June 30, 2010 and 2009 and the results of its operations, changes in its fund balance and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2010, on our consideration of the CHP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Los Angeles, California
December 22, 2010



**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

Balance Sheet

June 30

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	\$ 21,802,272	\$ 30,697,707
Receivables (Note 3)	45,217,527	35,637,553
Prepaid expenses	1,965,404	1,653,003
Total current assets	<u>68,985,203</u>	<u>67,988,263</u>
Noncurrent assets:		
Long-term investments	<u>303,504</u>	<u>303,504</u>
Total noncurrent assets	<u>303,504</u>	<u>303,504</u>
TOTAL ASSETS	<u>\$ 69,288,707</u>	<u>\$ 68,291,767</u>
LIABILITIES AND FUND BALANCE		
Current liabilities:		
Accrued capitation	\$ 17,623,663	\$ 19,657,263
Claims payable (Note 4)	22,049,488	13,398,043
Accounts payable	2,385,204	2,952,965
Accrued salaries and related benefits	2,555,649	2,963,569
Amount due to Los Angeles County (Note 5)	7,968,403	10,761,422
Other liability (Note 6)	3,141,511	1,283,894
Total current liabilities	<u>55,723,918</u>	<u>51,017,156</u>
Fund balance:		
Restricted	4,650,952	4,432,803
Unrestricted	8,913,837	12,841,808
Total fund balance	<u>13,564,789</u>	<u>17,274,611</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 69,288,707</u>	<u>\$ 68,291,767</u>

The accompanying notes are an integral part of these financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statement of Income and Changes in Fund Balance
For the Fiscal Years Ended June 30

	<u>2010</u>	<u>2009</u>
REVENUES		
Capitation premiums	\$ 284,744,845	\$ 262,929,954
OPERATING EXPENSES		
Cost of health care services:		
Capitation premiums	202,199,954	181,867,270
Medical services	21,130,754	13,281,078
Pharmacy	20,478,488	18,333,817
Medical supplies	112,133	101,795
Total cost of health care services	<u>243,921,329</u>	<u>213,583,960</u>
General and administrative:		
Salaries and employee benefits	13,369,155	13,399,234
Professional and consulting services	4,487,147	5,401,786
Rent	1,224,865	1,205,323
Office expense	6,127,681	7,066,775
Communications	807,277	685,529
Miscellaneous	413	745
Total general and administrative expenditures	<u>26,016,538</u>	<u>27,759,392</u>
Total operating expenses	<u>269,937,867</u>	<u>241,343,352</u>
OPERATING INCOME	14,806,978	21,586,602
OTHER REVENUES		
Interest income	242,958	626,486
Other revenues	1,559,599	1,407,214
Total other revenues	<u>1,802,557</u>	<u>2,033,700</u>
Net income	16,609,535	23,620,301
FUND BALANCE, beginning of year	17,274,611	27,213,648
Transfer to LA County (Note 7)	<u>(20,319,357)</u>	<u>(33,559,338)</u>
FUND BALANCE, end of year	<u>\$ 13,564,789</u>	<u>\$ 17,274,611</u>

The accompanying notes are integral part of these financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statement of Cash Flows
For the Fiscal Years Ended June 30

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 16,609,535	\$ 23,620,301
Adjustments to reconcile change in net income to net cash used by operating activities		
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	(9,579,974)	824,052
Increase in prepaid expense	(312,401)	(254,362)
Decrease in accrued capitation	(2,033,600)	(5,997,219)
Increase in claims payable	8,651,445	1,102,170
Increase/(Decrease) in accounts payable	(567,761)	323,980
Increase/(Decrease) in accrued salaries and related benefits	(407,920)	249,480
Increase/(Decrease) in amount due to Los Angeles County	(2,793,019)	2,829,434
Increase/(Decrease) in other liability	1,857,617	(305,758)
Net cash provided by operating activities	<u>11,423,922</u>	<u>22,392,078</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer to Los Angeles County	(20,319,357)	(33,559,338)
Net cash used by financing activities	<u>(20,319,357)</u>	<u>(33,559,338)</u>
Net decrease in cash and cash equivalents	(8,895,435)	(11,167,260)
Cash and cash equivalents, beginning of the year	<u>30,697,707</u>	<u>41,864,967</u>
Cash and cash equivalents, end of the year	<u><u>\$ 21,802,272</u></u>	<u><u>\$ 30,697,707</u></u>

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
June 30, 2010**

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

The Community Health Plan (CHP) is the Medi-Cal health maintenance organization (HMO) owned and operated by the Los Angeles County Department of Health Services (DHS). It is a federally qualified HMO and is licensed as a prepaid full service health care service plan by the State of California Department of Managed Health Care under the Knox-Keene Health Care Service Plan Act of 1975. CHP provides health care services at low or no cost through the State's Medi-Cal Managed Care and Healthy Families Program and the Personal Assistance Services Council - Service Employees International Union (PASC-SEIU) Homecare Worker Health Care Plan.

Medi-Cal Managed Care

CHP is one of five Plan Partners contracting with L.A. Care Health Plan, the Local Health Initiative for Medi-Cal Managed Care in Los Angeles County. CHP has over 1200 primary care physicians, over 830 pharmacies, including the chain of Rite-Aid stores, and more than a thousand specialists in the Medi-Cal provider network. Under the Medi-Cal program there is no cost to the member for covered services and no co-payments.

Healthy Families Program

CHP contracts with the State Managed Risk Medical Insurance Board (MRMIB) to participate as a Healthy Families Program provider. The Healthy Families Program provides comprehensive health, dental and vision coverage to children in families with incomes at or below 250% of the Federal Income Guidelines. Since the program began in 1998, Community Health Plan has been designated the Community Provider Plan for Los Angeles County for the provision of health coverage.

PASC-SEIU Homecare Worker Health Care Plan

Effective April 1, 2002, the PASC-SEIU Homecare Worker Health Care Plan was implemented to provide health services to eligible In-Home Supportive Services (IHSS) Workers. The plan provides IHSS Workers access to a provider network comprised of Los Angeles County Department of Health Services facilities and contract providers.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As a managed health care organization, CHP derives the majority of its revenues from capitation premiums received for providing prepaid health services and prepares its financial statements in accordance with the AICPA Audit and Accounting Guide for "Health Care Organizations." The following is a summary of significant accounting policies used in the preparation of the accompanying financial statements. Such policies are in accordance with accounting principles generally accepted in the United States of America and have been consistently applied. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of CHP's financial statements relate to the assessment of the carrying value of claims payable and contingent liabilities. While management believes that the carrying value of such assets and liabilities is adequate as of June 30, 2010 and 2009, actual results could differ from the estimates upon which the carrying values were based.

Basis of Presentation - Fund Accounting

The accounts of the County are organized on the basis of funds and account groups, each of which is a separate accounting entity. Each fund is accounted for through a separate set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. CHP, an enterprise activity, is reported under the general fund of the County of Los Angeles. General fund is used to account for all financial resources except those required to be accounted for in another fund. Resources or expenditures not restricted for a particular purpose are accounted for in the general fund.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, CHP has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Concentration of Source of Revenues

CHP received approximately 57% of its premium revenues under service agreements with L.A. Care Health Plan for both fiscal years ended June 30, 2010 and 2009.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of CHP's equity portion of the Los Angeles County cash and investment pool. Funds received by CHP are deposited into the cash and investment pool for which the County Treasury is the depository. Funds deposited in the pool are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the fund. The average annual interest rates earned on CHP's deposits during fiscal years ended June 30, 2010 and 2009 were approximately 1.16% and 2.5%, respectively. As of June 30, 2010 and 2009, substantially all investments in the County investment pool were U.S. government securities, bankers' acceptances and negotiable certificates of deposit.

Long-Term Investments

Long-term investments consist of restricted investments on deposit with the California Department of Managed Health Care (DMHC). These investments consist of U.S. Treasury securities, and due to their restricted nature, are classified as long-term without regard to contractual maturity. Market values approximate carrying values as of June 30, 2010 and 2009.

Claims Reimbursement Receivable

Claims reimbursement receivable are claims for capitated services paid by CHP that are reimbursable from the contracted medical groups and hospitals. Management believes that uncollectible amounts, if any, will not be material to the financial statements.

Accrued Capitation

CHP pays capitation premiums to the contracted medical groups and hospitals in arrears on a per member per month basis. Accrued capitation consists of capitation payments due the contracted medical groups and hospitals.

Claims Payable

The liability for claims payable includes adjudicated claims, claims pending adjudication and a provision for incurred but not reported claims. The amount payable for the claims pending adjudication is reduced by an allowance for denied claims estimated based on paid/denied ratio of claims closed during the year. The provision for incurred but not reported claims is estimated using a lag study based upon historical data including the period between the date services are rendered and the date claims are received and paid and denied claim activity. The estimate for incurred but not reported claims is made on an accrual basis and adjusted in future periods as required.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims and losses paid are dependent on future developments, management is of the opinion that the recorded reserves are adequate to cover such costs. These liabilities are reduced by estimated amounts recoverable from contracted health care providers.

Fund Balance

Fund balance is reported as restricted when constraints placed on its use are either: (1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. CHP's restricted fund balance consists of the amounts required to satisfy the deposit and tangible net equity requirements of the Department of Managed Health Care as of June 30, 2010 and 2009 (see Note 7).

Premium Revenues

CHP's premium revenues are capitation payments received for plan enrollees on a per member per month basis. Premiums are recognized as revenue in the month in which the members are entitled to service.

Cost of Health Care Services

CHP contracts with various medical groups to provide professional care to its members on a capitated, or fixed per member per month fee basis. Capitation contracts generally include a provision for stop-loss and non-capitated services for which CHP is liable. Additionally, CHP contracts with certain hospitals to provide hospital care to enrolled members on a capitation basis.

The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services which have been incurred but not yet reported. Such costs include capitation payments to contracted medical groups and hospitals for primary care, specialty and hospital services and the cost of non-capitated medical services, pharmacy and medical supplies.

Fair Value of Financial Instruments

The estimated fair value amounts of cash equivalents and long-term investments approximate their carrying amounts in the financial statements and have been determined by CHP using available market information and appropriate valuation methodologies. The carrying amounts of cash equivalents approximate fair value due to the similarity in its nature to demand deposits. The fair values of long-term investments are estimated based on quoted market prices and dealer quotes for similar investments.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax

As an operating division of the County, CHP is exempt from State and Federal income taxes.

NOTE 3 – RECEIVABLES

Receivables are comprised of interest receivable, capitation premiums receivable and claims reimbursement receivable from health care service providers. As of June 30, 2010 and 2009, receivables consisted of the following:

	2010	2009
Capitation premiums receivable	\$ 21,746,555	\$ 16,740,309
Claims reimbursement receivable	22,233,299	18,047,328
Interest receivable	41,514	122,030
Other receivable	1,196,159	727,886
	<u>\$ 45,217,527</u>	<u>\$ 35,637,553</u>

NOTE 4 – CLAIMS PAYABLE

Claims payable are comprised of claims payable, claims pending adjudication and a liability for claims incurred but not yet received, reduced by management's estimate of the amount that will be denied and the amount that will be recoverable from contracted providers. As of June 30, 2010 and 2009, claims payable consisted of the following:

	2010	2009
Claims payable/pending adjudication	\$ 28,791,002	\$ 38,873,543
Claims incurred but not received	19,507,999	10,526,202
Claims payable	82,441	55,967
Less: Allowance for denied claims	(26,331,954)	(36,057,669)
	<u>\$ 22,049,488</u>	<u>\$ 13,398,043</u>

NOTE 5 – AMOUNT DUE TO LOS ANGELES COUNTY

Cash disbursements for CHP are made from the general fund of Los Angeles County Department of Health Services (DHS). CHP transfers funds periodically to the general fund from its County cash and investment pool to reimburse the general fund or to fund its projected cash disbursements. The amount due to Los Angeles County consists of the amount owed to the DHS general fund and the amount due other County funds for services such as telephone, rent and information system support. As of June 30, 2010 and 2009, the amount due to Los Angeles County consisted of the following:

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

NOTE 5 – AMOUNT DUE TO LOS ANGELES COUNTY (Continued)

	2010	2009
Amount due to Los Angeles County funds	\$ 7,968,403	\$ 10,761,422

NOTE 6 – OTHER LIABILITY

Other liability is comprised of claims settlements, pay-for-performance, and incentive payment to Department of Health Service passed through CHP. As of June 30, 2010 and 2009, claims payable consisted of the following:

	2010	2009
Claims Settlements	\$ 520,855	\$ 70,685
Pay-for-Performance Program	2,532,706	1,213,209
Incentive Payment	87,950	-
	\$ 3,141,511	\$ 1,283,894

NOTE 7 – TRANSFER TO LOS ANGELES COUNTY

CHP transfers funds in excess of 150% of the total net equity to the general fund of DHS. During the fiscal years ended June 30, 2010 and 2009, the total transfer to DHS amounted to \$20,319,357 and \$33,559,338, respectively.

NOTE 8 – RETIREMENT PLAN

The County's retirement plan covers CHP employees and provides for monthly pension payments to eligible employees upon retirement. Salaries and employee benefits expense includes a provision for the retirement plan cost, as well as vacation and sick pay, which is estimated based on a percentage of salaries expense. The actual cost of the retirement plan, actuarial present value of accumulated retirement plan benefits, and net assets available for retirement plan benefits are not separately identifiable for CHP.

NOTE 9 – REGULATORY REQUIREMENTS

CHP, as a California licensed health service plan, is regulated by the State of California Department of Managed Health Care (DMHC). Title 28 of the Code of California Regulations requires that CHP maintain certain deposits assigned to the Director of the DMHC and comply with certain minimal capital or tangible net equity requirements. Management believes that as of June 30, 2010 and 2009, CHP met its regulatory requirements.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

NOTE 10 – CONTINGENCIES

The County has agreed to fund CHP losses, if any, and to cover CHP under its self-insured medical malpractice program when medical services are provided at a County facility. In addition, the County has agreed to cover CHP under its self-insured workers' compensation program. These coverages are provided to CHP at no cost.

NOTE 11 – SUBSEQUENT EVENTS

In July 2010, CHP recorded a total operating transfer-out of \$1,456,404 to the Los Angeles County Department of Health Services general fund.

These notes are an integral part of the preceding financial statements.



SIMPSON & SIMPSON
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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Board of Supervisors of
County of Los Angeles

We have audited the accompanying financial statements of the **Los Angeles County Department of Health Services Community Health Plan (CHP)** as of and for the fiscal year ended June 30, 2010 and 2009, and have issued our report thereon, dated December 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CHP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CHP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CHP's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CHP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the CHP in a separate letter dated December 22, 2010.



This report is intended solely for the information and use of the County of Los Angeles, management, and the State of California Department of Managed Health Care and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson'.

Los Angeles, California
December 22, 2010